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SUBJECT: 2/9 UKRAINE WTO UPDATE: KYRGYZ BILAT

REF: A. KYIV 200

1B. KYIV 82

1C. 2006 KYIV 4667

1D. 2006 KYIV 4648

1E. 2006 KYIV 4237

1F. 2006 KIEV 2587

Classified By: AMBASSADOR, FOR REASONS 1.4 (B) AND (D)

11. (C) Summary: Ukraine must sign one more bilateral Market Access Agreement, with Kyrgyzstan, as part of its accession to the WTO. Erkin Mamkulov, Kyrgyz Ambassador to Ukraine, told us that resolution of USD 27 million worth of debt, owed by Ukraine to Kyrgyzstan, is the critical remaining issue and a precondition for agreement. Mamkulov emphasized that only direct bilateral talks, outside the context of the WTO Working Party in Geneva, could resolve the issue. He criticized the GOU for ignoring Kyrgyz demands. The EU sides with the Ukrainians. Meanwhile, the GOU is anxious to push ahead with accession as quickly as possible and has recognized that several outstanding issues -- agreement on agricultural support levels and grain export restrictions -- require immediate attention. End Summary.

12. (U) This latest edition in a series of regular update cables regarding the status of Ukraine's WTO accession (refs A-D and previous) covers the period January 29 - February 9.

Kyrgyz Bilat: It's the Debt

13. (C) Econ Counselor met on February 6 with Ambassador Erkin Mamkulov, Kyrgyz Ambassador to Ukraine, to discuss the status of a Ukraine-Kyrgyzstan bilateral Market Access Agreement, the last one required for Ukraine's WTO accession. (Note: DCM had previously dealt with Mamkulov, a career diplomat, while the latter was working at the Kyrgyz Foreign Ministry, and found him to be competent and forthright. End Note.)

14. (C) Mamkulov said that Kyrgyzstan views the negotiations as consisting of two discrete parts: 1) trade/market access negotiations taking place in Geneva, in the context of the Working Party; and 2) strictly bilateral, Kyiv-Bishkek negotiations on outstanding debt owed by Ukraine to Kyrgyzstan. Agreement on the debt issue must come first, said Mamkulov, and this issue is outside the competency of trade negotiators in Geneva.

15. (C) Mamkulov emphasized that he had spelled out the Kyrgyz

position clearly to the GOU, including to Prime Minister Viktor Yanukovych, and expressed some frustration that Ukrainian negotiators had talked of "bypassing" the agreement with Kyrgyzstan through a vote in the WTO (ref E). He noted that Ukraine and Kyrgyzstan had discussed the debt issue many times, including most recently in 2002-3, but that the Ukrainian side never appeared eager to solve it.

¶6. (C) Comment: Mamkulov was remarkably open in discussing the Kyrgyz negotiating position. His clear differentiation of the two elements of negotiations may help explain why December reports from Geneva (ref D) of a breakthrough in the talks were premature. There well may have been progress in Geneva on trade-related specifics, such as safeguards on Kyrgyz light bulbs, but solving the debt issue is clearly a Kyrgyz precondition to a bilateral agreement. End Comment.

Debt Specifics

¶7. (C) According to Mamkulov, the issue surrounds USD 27 million worth of debt accumulated by Ukrainian entities during Soviet days and in 1992. Ukraine's lead WTO negotiator Valeriy Pyatnytskiy has told us repeatedly that the GOU views the obligation as enterprise, not state, debt that should be handled outside of government channels by the enterprises involved (ref F). Mamkulov criticized this position, arguing that the "economic entities" involved had been acting under state guarantees at that time, and that most of the Ukrainian entities involved no longer exist. Expecting the enterprises to work out the issue themselves, or through the courts, was simply unrealistic. "We are not trying to be difficult," he said, "but we must protect our national interests." Mamkulov noted that Kyrgyzstan had paid

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its own Soviet-era debts to Russia and Uzbekistan.

¶8. (C) Econ Counselor asked if it is imperative that Ukraine formally recognize the debt as state debt. (Note: The Ukrainians are concerned that doing so may open the door to similar claims by other former Soviet republics. End Note.) Mamkulov said no, emphasizing that actual payment of the debt in full is the critical issue.

¶9. (C) Luis Manuel Portero Sanchez, head of the European Commission's Trade and Economic Section in Kyiv, told Econoff on February 7 that he was sympathetic to the Ukrainians' argument, given the nature of the debt in question. Portero Sanchez said that, as he understood it, most of the debt accrued as a result of food supplies provided by Kyrgyz producers to Red Army troops stationed in Ukraine. To determine the actual figure owed, he opined, would require the impossible task of calculating the value of Kyrgyz food products actually consumed by Ukrainian (rather than Russian or other) soldiers stationed in Ukraine.

Way Forward

¶10. (SBU) The Ukrainians are sticking to their line that the debt issue falls beyond the scope of WTO negotiations, and PM Yanukovych stated publicly at Davos that the debt "has nothing to do with accession to the WTO." Negotiations continue, however, most recently with Deputy PM Mykola Azarov leading the Ukrainian side (septel). Mamkulov said that the GOU had in January provided a detailed proposal, which is now being analyzed by GOK financial experts.

Ukraine Poised to Tackle Outstanding Issues

¶11. (SBU) Ukraine remains anxious to push ahead with accession as quickly as possible. GOU negotiators continue to tell us regularly they are eager to review USG comments on the recently passed legislation. PM Yanukovych restated his

commitment to a speedy accession at Davos, noting that, in addition to the Kyrgyz bilat, Ukraine would push ahead to solve the agricultural support question, U.S. imports of beef/pork, and grain export restrictions. Ukrainian negotiators plan to meet with the Australians on February 19 to discuss agricultural support levels. The GOU believes it has resolved the problems involving U.S. beef and pork imports, although so far only a limited number of shipments of U.S. product have entered Ukraine. Deputy Chief Veterinary Inspector Volodymyr Horzheyev told the press on February 7 that there are no longer any barriers to the import of U.S. meat, and that the GOU is waiting for the United States to set a date for a system audit of U.S. facilities. The February 8 edition of the Kyiv business daily "Kommersant" cited government sources complaining the U.S. was holding up consideration of WTO-related legislation at the next Working Party meeting because of differences over meat imports and grain import quotas. The article also printed Embassy's response that analysis of the legislation was ongoing and our reiteration of the USG's overall support for Ukraine's WTO accession.

Taylor